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December 5, 2002

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Memorandum of Ex Parte Communication

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
TW-A325-Lobby
Washington, D.C. 20554

Dear Ms. Dortch:

Re: CC Docket No. 01-338, Review of the Section 251 Unbundling
Obligations of Incumbent Local Exchange Carriers

CC Docket No. 96-98, Implementation of the Local Competition
Provisions in the Telecommunications Act of 1996

CC Docket No. 98-147, Deployment of Wireline Services Offering
Advanced Telecommunications Capability

On December 4, 2002, Ed Whitacre (SBC Chairman and CEO), William Daley (President - SBC), and Jim Smith (Senior Vice President - FCC) met with Commissioner Michael J. Copps and Jordan Goldstein, Legal Advisor to the Commissioner, to discuss development of a sustainable wholesale model for local competition. SBC proposed a transition plan that it believes could serve as a national model. The attached materials were used as the basis of the discussions.

We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.12 of the Commission's rules. Please include a copy of this

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submission in the record of the above-listed proceedings. Also, please stamp and return the provided copy to confirm your receipt. You may contact me at (202) 326-8889 should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jay Bennett". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Attachment

cc: Commissioner Copps
J. Goldstein



Development of a Sustainable Wholesale Model

December 4, 2002

Path to a Sustainable Whole



"In the coming months, we will decide whether to keep, modify, or scrap many of our competition rules, particularly those that apply to broadband services and network elements. Talk about important decisions - there is the potential here to remake our entire telecommunications landscape, for better or for worse. The stakes are enormous. At some point, the vote is going to be called on these issues."

*7/29/2002 Remarks of Michael J. Copps
National Association of Regulatory Utility Commissioners
Telecommunications Committee*

Path to a Sustainable Wholesale Model



- SBC is prepared to focus on answers.
- We are not here to point fingers, but rather to offer solutions.
- SBC has endeavored to develop a proposal, including a transition plan, that would meet the needs of all and could be implemented nationally.

Path to a Sustainable Wholesale Model



- SBC wants to be in the business of providing viable and sustainable wholesale products to other telecom carriers.
 - A long history of providing wholesale services in the access market.
 - Seeks to offer analogous services for the local market.
- CLECs advocate that UNE-P be continued indefinitely, while ILECs call for its elimination following a short transition period.
- The FCC's difficult charge is to develop a legally sound long-term solution, including any necessary transition to viable and sustainable business models.

Path to a Sustainable Wholesale Model



SBC's transition proposal

- Establishment of a two-year transitional **wholesale offering** for serving residential customers that is functionally equivalent to the UNE-P at a rate of \$26 per month.
 - CLECs could migrate new residential customers under this wholesale offering during the transition period for a non-recurring charge of \$10.00.
 - Existing UNE-P customers migrated to \$26 rate over twelve months.
- Upon the effective date of the Triennial Review Order, ILECs would no longer be required to provide UNE-P to serve business customers.
 - Resale, as well as facilities-based competition utilizing unbundled loops, would remain available.
 - Parties would remain free to negotiate business-to-business facilities leasing arrangements.

Path to a Sustainable Wholesale Model



Framework

- Commission finds that competitors are not impaired on the local switching element.
- The transition plan would be appropriate as a national policy.
- Resale and UNE-L options would also remain available for CLECs to serve the mass market.
- Existing use restrictions for EELs would remain in-place.

Path to a Sustainable Wholesale Model



Plan Benefits

- Certainty restored to the telecom marketplace with adequate time for companies to negotiate business-to-business facilities leasing arrangements.
- CLECs provided with a reasonable transition period at an affordable rate.
 - CLECs will have ample time to further invest in their own loops, switches and transport facilities.
- A transitional monthly rate of \$26.00 would allow:
 - SBC to cover its operating costs.
 - CLECs' retail rates to recover their SG&A costs and provide a reasonable margin.
- States would have incentives to appropriately rationalize or deregulate residential local exchange rates.



Path to a Sustainable Wholesale Model

Estimated CLEC Retail Margins

Local & L Offering	\$40.00	-	\$≤0.00
Other (Access, SLC, etc.)*	\$8.00		\$ 8.00
Total Revenue	\$48.00	-	\$68.00
Transition Plan Rate	(\$26.00)		<(\$26.00)
LD Costs*	(\$5.00)		(\$5.00)
Est. SG&A @ 20%	(\$ 9.60)	-	(\$13.60)
Total Costs	(\$40.60)	-	(\$44.60)
CLEC Margin	\$7.40	-	\$23.40
% Margin	15%	-	34%

* Based on AT&T 9/30/2002 ex parte

Path to a Sustainable Wholesale Model



“It [a robust telecom infrastructure] is a locomotive of growth in other sectors, just as surely as energy and basic transportation infrastructure provide the wherewithal for other sectors to grow.”

*3/20/2002 Remarks of Michael J. Copps
CTIA/ALACEL Conference*

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“Our job is to eliminate barriers to competition so that companies have the incentive to invest and innovate. If we are successful in that, consumers will have the opportunity to choose the technologies and services that best fit their needs.”

*1/11/2002 Remarks of Michael J. Copps
FCBA Denver Chapter/Silicon*

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